ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

September 4, 2008

Eye on the Markets

The market storms continue to swirl as we enter hurricane season, with the additional turbulence it tends to bring. However, we've found a number of positives to focus on in the markets and economy, which continue to send mixed messages.

Stormy Weather

After taking a drubbing for several weeks in a row, based on assumptions that the global economy could slow, one trend returned over the last few weeks; oil prices moving on weather-related news. For the past year, weather took a back seat to global economic demand and geopolitical tensions. Over the last two weeks we've seen the ongoing Russian aggression taking a back seat to Mother Nature as Gustav's cone of uncertainty and forecasted strengthening put our Gulf Coast (responsible for about 24% of our oil production and processing) in harm's way.

Last Friday's rally of almost 200 points in the Dow Jones Industrial Average came on the back of another huge decline in oil prices (off about $6.50 per barrel) and suggestions from Fed Chief Ben Bernanke that while the economy remains fragile there appears little need to raise interest rates. Warren Buffett also weighed in during an interview with both negative comments on the economy and suggestions that there are pockets of value that he is beginning to nibble at—even among financials.

Then, last Monday the markets took a hit as, supposedly, worries about financial stocks were the cause. Yet, the NASDAQ, for one, also was down as much as the Dow and S&P though it's not as heavily influenced by financial shares. The housing market, by contrast, saw an uptick in existing home sales, but also an uptick in inventories of homes for sale, throwing mixed messages at the market about whether we've hit the basement in housing.

Since then it's been up a little, and up a lot. Last week's report showing Q2 GDP up 3.3%, a big jump from the initial reading of 1.9%, based on exports, a lower dollar and the impact of stimulus checks was all traders needed to push the Dow up almost 213 points, or 1.8%, last Thursday. In fact, in the second quarter GDP number shows a level of robust growth, and while you can trim some of the gain, since it was born in part of the stimulus checks, you can't diminish the fact that global growth continues to stimulate business activity and

In This Issue

earnings here at home.

What got a lot less play out of the GDP report was the first look at corporate, after-tax profits, a number that former Fed Chief Alan Greenspan used to say was the purest form of profits, as it couldn't be "spun" by the accountants. Like most taxpayers, companies try to keep their "profits" as low as possible when it comes to the IRS, so this is a good number to look at.

Well, while the stock market was declining in the second quarter, after-tax profits were rising. When you look at the earnings yield on the stock market, and compare that to the yield on 10-year Treasurys the gap remains huge (it was a record in the first quarter). What this means is that at current stock prices we're not paying very much for each dollar of earnings, particularly compared to what we'd be paying for a dollar of interest. Whether you want to buy now, or buy later, stocks look cheap on a historical and a relative basis.

Another positive report last week: Durable goods orders came in above expectations again, and it wasn't all defense or aircraft orders either—businesses are still buying equipment of all types. Overseas sales continue to stimulate earnings growth and this gives us hope that the global economy has not come completely off the rails. And consumer confidence saw a bit of an uptick though we don't place too much value on this indicator's predictive value.

Against this foreground we have the Fed backdrop in the form of their last meeting's minutes wherein inflationary concerns remain present, and a rate hike still looks like the most probable next move—the timing of a future hike remains up for debate, however. But the markets continue to suggest that those factors are taking a back seat to fretting over domestic and global growth; recession seems to at least share the center stage with inflationary concerns—even as consumer confidence ticked up a bit. Meantime, the FDIC list of banks under the gun increased from the stated 90 to 117—not a good sign for the fragile financial sector.

Looking to the Horizon
This week we'll get an update on the service economy, and how it's either growing, shrinking or holding its own (earlier this week the ISM Manufacturing report showed a slight contraction from July to August), plus an update on productivity, which has remarkably been improving at a regular pace despite predictions dating back to the '90s that there was just no more room for big productivity improvements by U.S. companies, a view we do not share.

We also now have to look ahead to mid-October, when we will start to get some third quarter earnings numbers, and beyond that, to the uncertainty of how the presidential election will play out now that both nominations and vice-presidential candidates have been secured. Before then, of course, another Fed meeting, and lots of continuing volatility, for sure, not to mention a hurricane season that hasn't really slammed us just yet.

For now, growth persists, here and abroad; but fears relating to weaknesses and slowdowns shadow every upside. We know that economic growth is an essential foundation on which to build a sustainable rebound, but we also know that economic data tends to be a lagging, not leading indicator. The best leading indicator? The markets. What are today's markets telling us? Investors can't afford to sit on the sidelines anymore than you can afford to invest in a narrow area of it. Diversification enables us to better manage the markets' volatility, and to better net the fleeting gains (of late), where and when they present themselves.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $1.2 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 40 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

Adviser Investments
85 Wells Avenue
Newton, MA 02459
USA